

**FOURTH LEGISLATIVE DAY
THURSDAY, JANUARY 9, 2003**

House of Representatives

The House convened at 10:30 a.m., the Speaker in the Chair.

Roll call showed all 70 members present.

Prayer was offered by Chaplain Jim Hardenbrook.

The Pledge of Allegiance was led by Emilie Moncur.

Approval of Journal

January 9, 2003

Mr. Speaker:

We, your COMMITTEE ON JUDICIARY, RULES, AND ADMINISTRATION, report that we have read and approved the House Journal of the Third Legislative Day and recommend that same be adopted as corrected.

FIELD(18), Chairman

Mrs. Field(18) moved that the report be adopted. Seconded by Mrs. Boe. Report adopted.

Report of Standing Committees

January 9, 2003

Mr. Speaker:

We, your COMMITTEE ON JUDICIARY, RULES, AND ADMINISTRATION report that we have printed **HR 1**.

FIELD(18), Chairman

HR 1 was filed for second reading.

January 9, 2003

Mr. Speaker:

We, your COMMITTEE ON JUDICIARY, RULES, AND ADMINISTRATION, report that we have enrolled **HCR 2**.

FIELD(18), Chairman

The Speaker announced he was about to sign enrolled **HCR 2**, and, when so signed, ordered it transmitted to the Senate for the signature of the President.

There being no objection, the House advanced to the Seventh Order of Business.

Motions, Memorials, and Resolutions

Mr. Denney asked unanimous consent that a committee be appointed to wait upon the Senate and escort the Senators to the House Chamber for the purpose of attending the Joint Session. There being no objection, it was so ordered.

The Speaker appointed Representatives Moyle, Stevenson, and Shepherd as the committee to wait upon the Senate. The committee was excused.

The committee appointed to wait upon the Senate returned and reported that the Senate was waiting to enter the House Chambers. The Speaker thanked and discharged the committee.

JOINT SESSION

Pursuant to **HCR 3**, the hour of 11 a.m. having arrived, the members of the Senate entered the House Chamber and met in Joint Session with Speaker Newcomb presiding.

Roll call of the House showed all 70 members present.

Roll call of the Senate showed all 35 members present.

Mr. Denney asked unanimous consent that one committee be appointed to wait upon the Supreme Court Justices and one to wait upon the Elected Officials and escort them to the House Chamber. There being no objection, it was so ordered.

The Speaker appointed Senators Stegner and Malepeai, and Representatives Field(18) and Boe as the committee to wait upon the Supreme Court Justices and Senators Sorensen and Brandt, and Representatives Bedke and Martinez as the committee to wait upon the Elected Officials and escort them to the House Chamber. The committees were excused.

Mr. Denney asked unanimous consent that the Speaker appoint a committee to wait upon the Governor and escort him to the House Chamber. There being no objection, it was so ordered.

The Speaker appointed Senators Cameron and Marley, and Representatives Crow and Cuddy as the committee to wait upon the Governor and escort him to the House Chamber. The committee was excused.

The committee appointed by the Speaker escorted the Supreme Court Justices to the House Chamber where they were presented to the Joint Session.

The committee appointed by the Speaker escorted the Elected Officials to the House Chamber where they were presented to the Joint Session.

The committee appointed by the Speaker escorted the Governor to the House Chamber.

His Excellency, the Governor of the State of Idaho, Dirk Kempthorne, was introduced by the Speaker and the following Budget Message was delivered by Governor Kempthorne:

BUDGET ADDRESS

Mr. Speaker, Mr. President, fellow constitutional officers, distinguished members of the Legislature, distinguished members of the Judiciary, fellow citizens of Idaho.

Thank you for having me back so soon. I wasn't sure that

you'd invite me after Tuesday night's message. The message I delivered was difficult. But after the speech, Patricia and I went home, and I have to admit, to quote Lou Holtz, "I slept like a baby. I woke up every two hours crying."

Speaking of Lou Holtz, who is a great college football coach, there's another great college football program with a great coach in Dan Hawkins right here. Ranked twelfth in the nation and champions of the Humanitarian Bowl, our Boise State Broncos.

Just two days ago, I began a discussion with you and the people of Idaho about the stark reality that we're facing together. Much has changed in the past two years, but we must resolve not to be victims of change. We must, and we will be the authors of our own destiny. As an individual, I did not look forward to delivering this type of message. It is not in my fiber. But in the end, I concluded that this is in the best interest of our citizens.

The decisions we face have serious implications for Idaho, and for our future. I know that many of you share my belief in limited government. I know that we agree that government should be lean. The prospect of a tax increase is unsettling and it should be. We must never ask the citizens to sacrifice their hard earned dollars unless it is truly needed to provide the essential services they expect and deserve.

We have cut government for the past two years. We reduced spending, found efficiencies, and began a process of streamlining government that continues. We have cut the fat, and we cut into the muscle. We are not asking our citizens to pay more to expand government. We are asking them to participate in ensuring that we can meet the critical needs of the people of Idaho, today and into the future.

Ladies and Gentlemen, while we look ahead to Fiscal Year 2004, our work for Fiscal Year 2003 is not yet finished. While we haven't had to call a special session, there's still more to do in the current fiscal year.

A year ago, when you set the current budget, it was based on a projection of a 6.6% revenue growth over the previous year. That has not been the case, and so in August, the revenue projection was revised downward. That created a gap between what was appropriated and what we anticipated our revenues would be through the end of the fiscal year. After we lowered our revenue expectations in August, it was a hopeful sign to then see the next five consecutive months' revenues exceed expectations. Does the trend continue in December's receipts? No. Unfortunately, we're down by \$3.5 million.

After getting through half the year with a \$30 million cushion, I had hoped it would continue, and in six months we would have a \$60 million cushion. But, the current information doesn't show that. The economists indicate that it will be wiped out in the coming months.

In order to finish Fiscal Year 2003 in the black, in addition to making permanent the 3.5% hold-backs I ordered this year, we must also tap our remaining reserves. Five million dollars from

the Risk Management Fund surplus, \$35 million from the Permanent Building Fund maintenance account, \$13 million from the remaining construction projects in the Permanent Building Fund, \$61 million from the Millennium Fund, and \$8.6 million from the Budget Stabilization Fund. And the final element to get us through Fiscal Year 2003 is to make the implementation date of the 1.5 cent sales tax May 1, 2003, which will generate \$18.4 million.

That balances our Fiscal Year 2003 budget, maintains the core functions of state government, and sets the backdrop for the Fiscal Year 2004 budget that I submit to you today.

I know you will now take the time necessary to immerse yourselves in this issue. I think in time you'll find that our conclusions will be much closer than you might believe they are now. So, as you go through this, may I respectfully ask you to "keep your powder dry."

Now, let me fill you in on the details and I will not embellish them, nor sugarcoat them. Here are the facts.

FACT: We have nearly a \$200 million gap to fill, that was all one-time money.

FACT: We have depleted virtually all reserve accounts. We've used the Rainy Day Fund, we've used the Permanent Building Fund, and we've used the corpus and the payments to the Millennium Fund.

FACT: Since the recession, we have reduced government spending by nearly \$200 million.

FACT: Any portion of this problem that you attempt to solve with one-time money merely postpones the problem until next year.

FACT: For Fiscal Year 2004, the majority of general fund agencies will again see reductions in their budgets.

FACT: This budget meets statutory obligations and caseload and enrollment increases with a general fund increase of less than 3%.

FACT: There are no increases for inflationary costs except a limited amount for medical inflation and in higher education.

FACT: While health care costs nationwide are expected to grow by up to 15%, this budget holds Medicaid growth to less than half of that, just 7%.

FACT: There is no CEC for state employees.

FACT: This is a maintenance budget.

We are at a critical juncture in this state. We can either move forward, or we can fall victim to this national economy. This will require all of us to do some soul searching. But, I'll tell you

the conclusion I ultimately came to. While personally uncomfortable, I truly believe that this is in the best interest of the citizens we serve.

Before we ever considered revenue enhancements, we focused on reducing the size, the scope, and the cost of government. In this budget you will see the reductions. No increase for the Department of Agriculture, and in fact, a decrease. No increase for the Department of Commerce, and in fact, a decrease. No increase for the Department of Parks and Recreation, and in fact, a decrease. No increase for the State Board of Education, and in fact, a decrease. No increase for the Military, and in fact, a decrease. No increase to Public Broadcasting, and in fact a decrease. No increase to Vocational Rehabilitation, and in fact a decrease. No increase for the Division of Financial Management, and in fact, a decrease. No increase for the Office of Species Conservation, and in fact a decrease. No increase for the Office of the Governor and in fact, a decrease. No increase for the Lt. Governor, no increase for the Secretary of State, none for the Attorney General, no increase for the State Treasurer or the Superintendent of Public Instruction, and none for the State Controller. In fact, there are decreases.

Remember, these base reductions come on the heels of hold-backs totaling 4% in Fiscal Year 2002, base reductions for Fiscal Year 2003 that were as high as 10%, and then a 3.5% hold-back at the start of Fiscal Year 2003.

Since the recession started, we have dramatically reduced these agencies and others and we will continue to vigorously look for further savings. We've made the cuts, we've gone to our savings accounts, and friends, the reserves are virtually depleted.

While Idahoans recognize that programs and services have been reduced during these difficult times, they also recognize that the state has a fundamental responsibility to provide for both current and future needs in education, public safety, and vital health care services. In education, the state is required to fund statutory increases. I have met my legal requirement with a base increase of \$16 million. I have included, as we have for multiple years, technology funding. The figure I use is \$5 million, the same figure as this year, which is down from \$7 million from all previous years. I have included \$2 million for achievement standards, which will be matched with federal money, because I will not allow us to miss our 2005 goal of having standards and achievement in place. I have placed \$1.5 million for the program that we have committed to in order to cover the interest payments for school facilities. The final category in public education is the discretionary account, which this year is \$8.4 million, and I have reduced that by \$5 million to \$3.3 million next year. It is lean, recognizing that we are in tough times. But it meets ALL statutory requirements, showing our commitment that in good times or bad, we will continue to invest in the education of our children.

In higher education, I have provided a straight-line maintenance of current operations budget which does indeed address the effects of increasing enrollments of students. Two

years ago, you also approved construction projects on each of the college and university campuses. Those projects were placed on hold when the recession hit. Allowing those projects to go forward now will have a tremendous economic impact in each region of the state, immediately creating hundreds of high paying construction jobs, as well as benefitting thousands of other workers and businesses. These buildings will be used for decades to come. So, to pay for them over the course of 20 years, but to have their use now is a tremendous benefit. Compare this with constructing these buildings one at a time over the next 20 years. The need is immediate, such as the Life Science Building at North Idaho College so that we can meet the critical shortage of nurses. While this meets the pressing needs at our colleges and universities, this is also true economic stimulus. This is a win-win opportunity with low interest rates, and the payments come from the Permanent Building Fund, not the General Fund.

In a down economy, a growing number of Idahoans return to college to sharpen skills or obtain the knowledge that will allow them to improve their employment opportunities. One of the few enhancements in this budget is in the Special Programs area where I have taken the needs-based scholarships from their current funding level and added \$1 million. My budget recommends maintaining the Robert R. Lee Promise Scholarships at the \$250 level per semester. I have put education first.

To care for children, pregnant women, the disabled, and the elderly, we must continue to ensure the stability of Medicaid. But we must also continue our efforts to stem the meteoric rise in Medicaid costs. This year, my budget incorporates a care management program for developmental disability and mental health populations. We've been discussing utilization management for three years. It's now time to quit discussing and start implementing this measure that will save taxpayers millions.

With the significant reforms we've put into place over the past two years, we have saved nearly \$140 million. We will continue to find efficiencies. But we must continue to protect the services to the most vulnerable.

We are maintaining our efforts with children's mental health, and I believe through this work of the past four years, we will finally end the Jeff D. lawsuit after 24 years.

We will also continue to be a partner with counties by funding the Catastrophic Health Care Fund. We will address the expense of caring for indigent persons after the \$10,000 deductible is met by the counties, and we will continue to provide one-time relief by reducing the deductible from \$10,000 to \$5,000 for those with tobacco related cancers and respiratory diseases.

Even in the midst of a financial crisis, we must never forget our commitment to our veterans. For those who have paid the supreme sacrifice so that we may have the opportunity to debate the future of our course, I honor the commitment to continue the development of the Veteran's Cemetery. We must maintain our scheduled commemoration date of July 4, 2004. Remember, we are the last state in the Union to provide a cemetery for our

veterans.

In the Department of Correction, in order to meet the rate of growth in the prison population, my budget provides for the operating costs of new beds at the South Idaho Correctional Institution and the Idaho Correction Center.

We have seen an increase in those who have qualified for parole in the past six months. With this increase, we must also increase the number of probation and parole officers, to provide proper supervision and help those who have been released begin their transition back into society and stop the revolving door.

Many of you, on the North Idaho Legislative Tour, commented on the impacts of my Rural Initiative. You heard from the local officials and saw, first hand, the impact of our economic development efforts in rural Idaho. We've helped communities create jobs and build the infrastructure that will open future doors to economic opportunity. We must continue these efforts, and that commitment to rural Idaho is maintained in my budget.

We have outstanding public employees. They are helping us get through this. While I wish it were otherwise, there are no across-the-board salary increases in this budget. There is no CEC. And yet, there is funding to ensure that health care coverage for our workforce is maintained without significant reductions in coverage or dramatic increases in premiums. You will recall that we did not provide any money for salary increases last year, and while there is no recommendation or money provided in this year's budget, I recognize that our current employees have stepped up to do more for our citizens without the additional compensation. Therefore, where there are salary savings because of vacancies or increased efficiencies, I recommend we give our managers flexibility to address outstanding performance.

My Fiscal Year 2004 budget includes a revenue projection of 4.1% growth over Fiscal Year 2003. But, you will see that this growth is consumed by the increases in maintenance costs, growth in caseloads and enrollments, and rising costs of health care. It will simply cost more next year to perform the same vital services we provide this year. Still, the revenue growth we've projected does nothing to address the nearly \$200 million gap from one-time money in the budget. To get us out of that predicament, and allow us to be prepared once the economy begins to recover, I have recommended a sales tax increase of 1.5 cents. That will generate \$240 million a year. I am recommending we begin this new rate on May 1 of this year so that we can generate one month's worth of additional revenue to help with our current budget. This will keep our Fiscal Year 2003 budget in the black and allow us to keep a balance of \$18 million in the state rainy day fund, a responsible measure to guard against future shortfalls, and a necessary measure to protect our state bond ratings. By implementing this measure early, with a sunset of June 30, 2006, we can provide immediate relief while also providing stability in the tax structure as the economy fully recovers.

I am grateful to Mayor Linda Milam and Mayor Nancy Merrill, who are the President and Vice President of the Association of Idaho Cities, who stated in a letter I received yesterday, "We support all revenue from the proposed temporary increase in the sales tax going directly to the state's General Fund." The Idaho Association of Counties has indicated the same support.

I recommend increasing the Grocery Tax Credit by \$5 per person at a cost of \$5.5 million.

Increasing the cigarette tax by thirty-four cents a pack will generate \$29 million in additional revenue. My recommendation is to begin this new rate on June 1, 2003 so that we realize the full amount in Fiscal Year 2004.

Of the \$264 million in additional revenue, 94% is necessary to solve the one-time money dilemma and begin paying back what we borrowed to fund education and the other critical services in the current fiscal year.

We must begin to rebuild the Budget Stabilization Fund. We don't know whether we have seen the end of this economic downturn, or what might happen if we go to war.

I'm serious about the sunset on the sales tax, and rather than use those revenues to expand government, we need to ensure that we are buffered against future economic storms.

We must begin to restore the corpus of the Millennium Fund. We will rely upon this fund to get through the current fiscal year, but we must continue to address the effects of tobacco on our youth and health care system by partially replenishing this important endowment in Fiscal Year 2004. When the next payment comes in April, we estimate the fund will be \$55 million.

Of critical importance, are \$21 million worth of maintenance projects we deferred this year. Many of these projects are at educational institutions and health facilities. Many of these involve life/safety compliance issues such as the installation of fire prevention and workplace protection systems.

With revenue growth projected at 4.1%, the total state budget for Fiscal Year 2004 is just over \$2 billion.

The proposals put forth in this budget represents sound financial planning. The funding requests have been closely reviewed. New programs and major expansions have been eliminated. The funding needs of education have been maintained and the critical needs of health and public safety have been met. We have solidified our commitment to the present, as well as prepared for the future. We have not fallen back, and we are moving ahead responsibly. We have provided for jobs through the restoration of the deferred maintenance program throughout the state and the construction projects on our education campuses. We have kept our safety nets in place, and we have convinced the financial markets that, of all the states,

Idaho is prepared to tackle the problems of the day, and the future, in a pragmatic and dutiful manner.

As I pointed out in the State of the State message the other night, tough choices have been made in the past, and will need to be made in the future.

Fellow Idahoans, I have a lot of confidence in this Legislature. I believe that this Fifty-seventh Legislature is equal to the daunting task before us. There has been a lot placed upon our shoulders. But by standing together, shoulder to shoulder, we will share the weight and solve the problem.

A First Century Roman philosopher offered this counsel. "First, say to yourself what you would be, then do what you have to do." Some two thousand years later, that is still sound advice for the challenges we face as a state. I ask each of us, "What kind of Idaho do we want?" And then, what must we do?

As we go through this process, we may well have disagreements, but let's contend with problems and issues, not with each other. We can demonstrate leadership, or we can fail to lead. Each path holds enormous consequences for the future. Let's take the path of leadership together. Thank you.

The Speaker thanked Governor Kempthorne.

The committee appointed to wait upon the Governor escorted him to his office.

Mr. Denney moved that the Governor's Budget Message be printed in both the House and Senate Journals. Seconded by Ms. Jaquet.

The question being, "Shall the motion carry?"

Whereupon the Speaker declared the motion carried by voice vote and ordered the Governor's Budget Message printed in both the House and Senate Journals.

The committee appointed to wait upon the Supreme Court Justices came forward and escorted them from the House Chamber.

The committee appointed to wait upon the Elected Officials came forward and escorted them from the House Chamber.

Mr. Denney moved that the Joint Session be dissolved. Seconded by Ms. Jaquet. Motion carried.

The Senate returned to its Chamber.

Mr. Denney moved that the House recess until 1:15 p.m. Seconded by Ms. Jaquet. Motion carried.

Whereupon the Speaker declared the House at recess until 1:15 p.m.

The House reconvened at 1:15 p.m., the Speaker in the Chair.

Roll call showed 66 members present.

Absent and excused -- Barraclough, Jones, Sali, Schaefer.
Total -- 4.

Total -- 70.

Prior to recess, the House was at the Seventh Order of Business.

Motions, Memorials, and Resolutions

There being no objection, the House advanced to the Sixteenth Order of Business.

Adjournment

Mr. Denney moved that the House adjourn until 8 a.m., Friday, January 10, 2003. Seconded by Ms. Jaquet. Motion carried.

Whereupon the Speaker declared the House adjourned at 1:25 p.m.

BRUCE NEWCOMB, Speaker

ATTEST:

PAMM JUKER, Chief Clerk

RECESS